The Research Bureau

Bureau Brief—Addendum to "Implications of a Fare-Free WRTA"

In May 2019, the Worcester Regional Research Bureau published a report analyzing the Worcester Regional Transit Authority's fare policy, providing facts and figures on ridership, collection costs, service zone demographics and more. The report compared those facts and figures to bus systems that eliminated fares to boost ridership, coming to the conclusion that the WRTA was the "perfect candidate for a fare-free system." Since the report's release, a coalition of area residents, both in and outside government, has pushed the WRTA to eliminate fares on public buses in the Worcester area.

The main objection to expending the time and energy that such an effort would take is that there is no money available to cover the roughly $3 million in fare revenue that would be lost by transitioning to a zero-fare model. However, at least 40 communities across the country have solved this problem, using funding methods both creative and conventional. This addendum to the WRRB's initial report will review some of these options and provide updated data on ridership and fare collection.

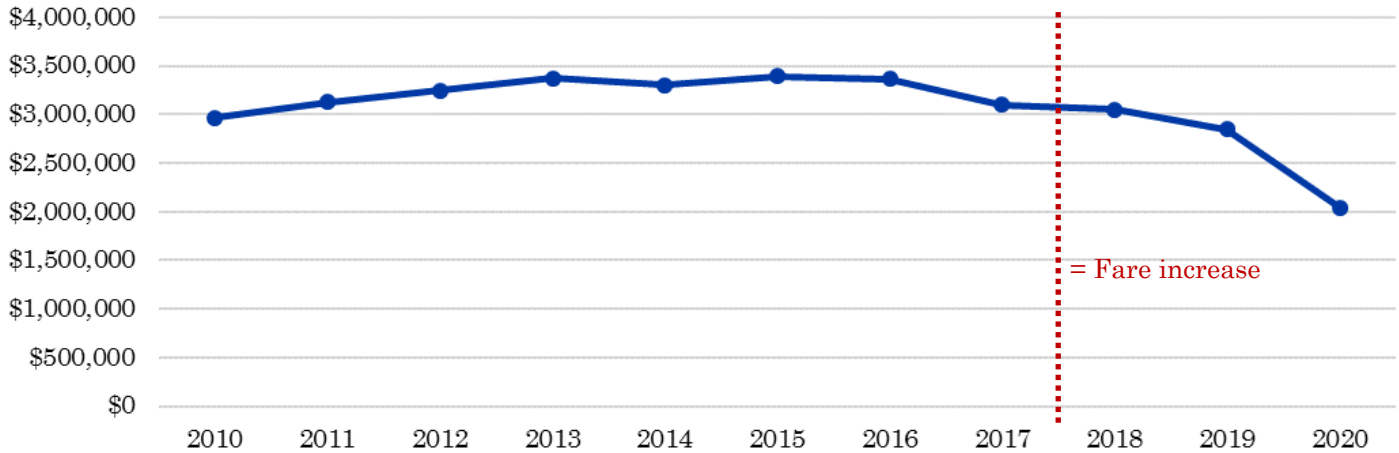
Where Are We Now?

The WRTA suspended fare collection in March in response to the COVID-19 pandemic. This change, which will be revisited by the WRTA Advisory Board in December, comes at a time of significant changes in ridership and federal funding, both due to the pandemic, and is not representative of the effect free fares would have on the transit system under normal conditions. However, certain elements—like the continued reporting of ridership data even with no fares, something that was a concern pre-pandemic—are notable.

Even before the pandemic, the declines in ridership and fare revenue that led to the original report continued. Passenger trips fell from 3.3 million in FY18 to 3.2 million in FY19, and dropped to 2.6 million in FY20 (fiscal years end on June 30 of the calendar year, so FY20 includes several months of the pandemic—see chart 2). This is all a decline from the 4.2 million trips taken before the 2017 fare hike. The promise of more revenue from that fare hike has continued to fall flat, as fixed-route fare revenue fell from $3.1 million in FY18 (already a decline from pre-hike revenue) to $2.9 million in FY19, and $2 million in FY20 (see chart 1).

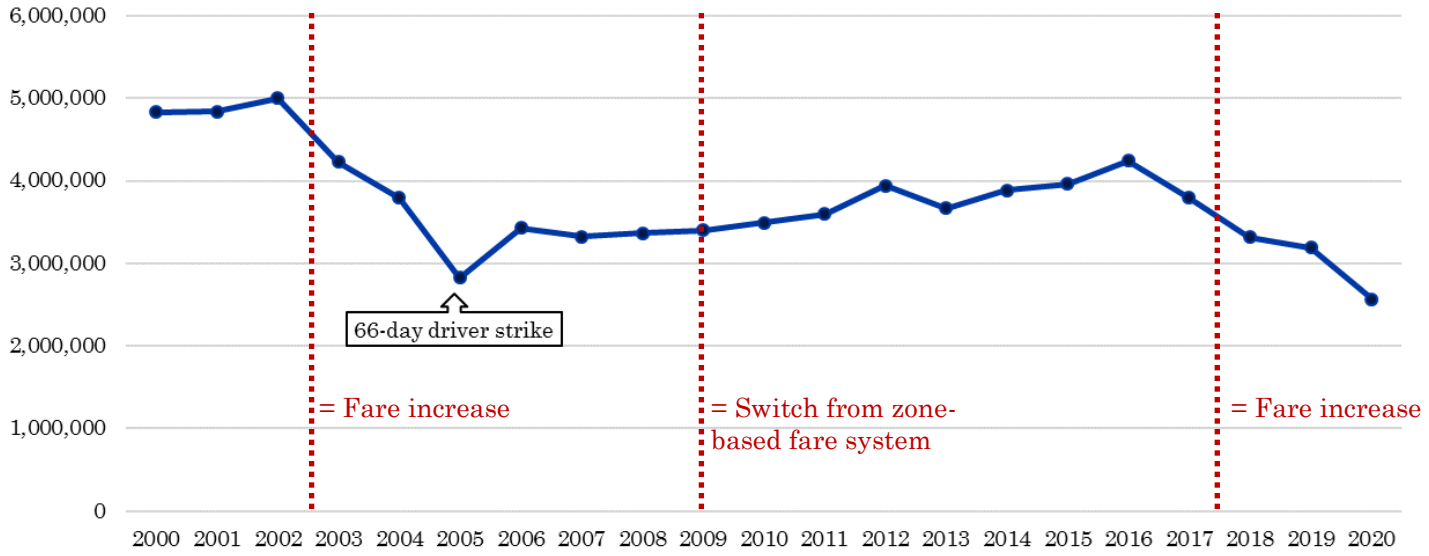
Between FY18 and FY20, it cost between $24 million and $26 million per year in total operating expenses to run the WRTA. Most of the revenue to fund that budget comes from grant money unaffected by fare collection. Around $3.3 million in FY18 and $3.1 million in FY19 came from fixed-route and demand response fares. The figure for FY20 was $2.4 million, but temporary federal Coronavirus Aid, Relief, and Economic Security Act (CARES) money filled the gap. This means, before reduced expenses from eliminating fare collection, the cost of maintaining existing service levels without fares is around $3.3 million.

Chart 1: WRTA Fixed-Route Farebox Revenue



Updated from Chart 1 in the original report. Years are fiscal years, running from July 1 to June 30. Source: Worcester Regional Transit Authority

Chart 2: WRTA Ridership Over Time



Updated from Chart 7 in the original report. Years are fiscal years, running from July 1 to June 30. Source: National Transit Database

Funding Option: City General Fund/Assessments

Example communities: Lawrence (Mass.), Edmund (Okla.), East Chicago Transit (Ind.), Indian River County (Fla.), McCall (Idaho), Niles (Ill.), Watauga (N.C.), Chapel Hill (N.C.), Bozeman (Mont.), Steamboat Springs (Colo.)

The most straightforward way to fund any government service is to allocate money from the city budget. This is already how the City of Worcester and other communities pay assessments to fund WRTA service. Spending money in this way means less money is available in the budget for other municipal priorities. The City of Worcester, with a $721 million budget, could more easily bear the cost than smaller communities, but this method of funding is still challenging due to tight budgets and competing priorities like public safety and education, and large existing capital commitments like Worcester's municipally-owned baseball stadium.

In some zero-fare communities, all of the necessary revenue comes from the general fund, while in others it is used in combination with another source. This can be helpful if partnering with a private philanthropic source or if the main source of money fluctuates (as in the case of taxes or fees).

While not a completely zero-fare system (and thus not reaping the benefits of eliminating the costs of fare collection), Worcester's fellow Gateway City of Lawrence started a zero-fare pilot program in September 2019. The cost is $225,000 to make the three busiest routes in the city fare-free for two years. The money comes from the City of Lawrence's surplus cash reserves and is paid to the Merrimack Valley RTA, which operates the system. By December, ridership on the three routes had increased by 20 percent.

Every community served by the WRTA pays an assessment to defray the cost of service. These assessments totaled nearly $5.2 million in FY20 and made up around 20 percent of the WRTA's budget (see chart 3). The assessments are based on service provided in a community. Worcester, with the most routes and service in its borders, owed an assessment of around $3.5 million in FY20, or around 67 percent of total assessments. Worcester routes brought in $1.7 million in fixed-route fare revenue. Both of these numbers are far less than the $15 million operating cost of running Worcester fixed-route service. The next largest community is Auburn, which paid an assessment of $190,000 against a fixed-route operating cost of $780,000.

Increases to member assessments are capped at 2.5 percent per year, although they may increase more based on their share of new service costs. This means a large increase like the one incurred by zero-fare service would have to have the support of at least the City of Worcester, since any increase in funding from city and town general funds would be at the discretion of those communities' leadership rather than the WRTA.

Funding Option: Private Subsidies

Example communities: Amherst (Mass.), Hanover (N.H.), Edmund (Okla.), Watauga (N.C.), Chapel Hill (N.C.), Clemson (S.C.)

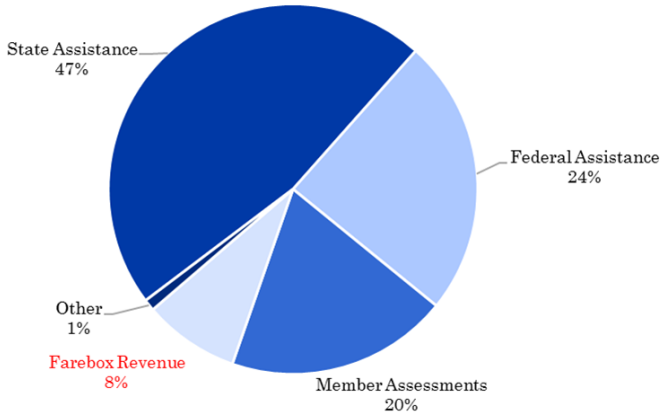
While the driving force behind eliminating fares is often the government, in other communities private institutions have been the first to see the benefit of going zero-fare—or at least the first to be willing to allocate money toward that cause. This funding source is primarily a supplement to another source (either general fund money or a new tax or fee).

The main private institutions that fund zero-fare service are colleges and universities, for various reasons. Colleges serve a student population that often has low rates of car ownership and limited spending money (even if they are typically wealthier overall than the general population that rides public transit). Colleges use access to the surrounding area as a marketing tool and school amenity, and need to find ways to connect their campus to the broader city or region. And colleges are typically both wealthier and more explicitly community-minded than smaller institutions or companies.

As noted in the WRRB's original report, UMass Amherst spearheads a representative model locally. While the Five Colleges area is in the Pioneer Valley Transit Authority's service zone, UMass Transit offers functionally free rides (non-affiliated members of the public are on an "honor system" for fare payment) to the area. UMass Lowell's partnership with the two RTAs in their area, which had been new at the time of the original report, is still in effect. While public colleges are prominent backers of effective public transit systems, private institutions in other states are also supporters—Dartmouth College financially supports Advance Transit in New Hampshire, for example.

Philanthropic funding is not limited to educational institutions. In addition to Dartmouth, Advance Transit had a donor base of around 1,000 people contributing nearly $100,000 per year at the time of the Transit Cooperative Research Program's 2012 study "Implementation and Outcomes of Fare-Free Transit Systems," a synthesis of previous research and surveys on American fare-free bus systems that was cited in the WRRB's original report. That report identified and tracked data from many of the communities cited as examples in this addendum.

Chart 3: WRTA Revenue, FY20



Updated from Chart 2 in the original report. Source: WRTA

Funding Option: State and Federal Grants

Example communities: Commerce (Calif.), Southeast Vermont, Indian River County (Fla.), Niles (Ill.), Bozeman (Mont.)

The Commonwealth of Massachusetts is the largest funder of WRTA operations, providing 47 percent of actual revenue in FY20 and FY19. It also exerts substantial influence over WRTA operations (as it does with all RTAs) through the Massachusetts Department of Transportation, which oversees public transit across the state.

MassDOT has not been supportive of zero-fare models, enshrining a target "farebox recovery ratio" in a memorandum of understanding with every RTA in the state, including the WRTA. Signing the MOU was connected to additional state funding, and hitting the targets in it is also connected to future funding. However, increasing ridership—the driving motive behind eliminating fares—is also a state priority, and there are concerns about placing too much focus on fare revenue. The Task Force on Regional Transit Authority Performance and Funding, a group convened by MassDOT, released a report last year on "the future of Massachusetts' RTAs." The wide-ranging report pointed out that maximizing fare revenue could create "a perverse incentive not to provide robust service in areas populated by seniors, for example, who by law pay no more than half-priced fares," and that state metrics used to allocate RTA funding should "avoid disincentivizing fare policies that increase access."

Many local proposals for zero-fare funding sources have focused on the state and federal government. The

Worcester Regional Chamber of Commerce recommended that transportation revenue raised through policies like an increased gas tax and the Governor's transportation bond bill should be linked to priorities like a three-year zero-fare pilot for the WRTA. Worcester State Rep. David LeBoeuf proposed using one cent of the diesel tax to make all RTAs zero-fare in a March transportation revenue bill (the amendment did not pass, and the bill was not enacted). On the federal level, in June U.S. Senator Ed Markey and U.S. Representative Ayanna Pressley proposed a bill that would create a $5 billion competitive grant program to fund the elimination of public transit fares in local communities nationally. Other efforts include the multi-state Transportation Climate Initiative, which would raise up to $7 billion to invest in reducing climate impacts from the transportation sector.

Because fare collection costs ($750,000 per year in farebox maintenance and staff processing time, per the WRTA's estimate, plus the cost of purchasing a system) are generally fixed, they make up a larger percentage of expenses in smaller systems than in larger ones. For this reason, smaller communities see a larger cost savings, as a percentage of their budget, than larger communities, and make up the bulk of current zero-fare communities. The advantage for smaller bus systems is compounded by the federal grant formula that applies to small urban and rural areas, which is offset by fare revenue. These communities have reported an increase in federal grant money after eliminating fares.

While the WRTA is not in a small urban or rural zone, it is worth considering the effect of eliminating fares on current or future grant programs. The main driver of more federal money for existing zero-fare systems is the receipt of grants that use "net operating expenses"—total expenses minus operating revenue like fares—as the basis for the amount of the grant. In zero-fare systems, all or nearly all operating expenses also count as net operating expenses.

Funding Option: Taxes

Example communities: Los Alamos (N.M.), Taos (N.M.), Canby (Ore.), Commerce Transit (Calif.), Whidbey Island (Wash.), Mason County (Wash.), Cache Valley Transit District (Utah)

Raising taxes is an effective but unpopular way of procuring new revenue for zero-fare transit systems. This has the advantage of avoiding taking money away from other local priorities, and of maintaining local government control of the revenue source (as opposed to philanthropy or state and federal grants). It has the disadvantage of being unpopular with residents, especially those who do not personally take the bus. Even when presented with evidence that increased public transit usage improves traffic, commute times, parking and other priorities important to residents who only or primarily drive cars, residents can be hesitant to approve more taxes.

For those reasons, and because of the demonstrated positive impact on businesses, many taxes are focused on commercial enterprises. Sales tax, gross receipts tax and payroll tax have all been used in various communities to replace fares. The idea is that the improvements in the transit system will increase businesses' customer base and workforce access. This is why, in many communities, business groups are among the first and most vocal advocates for free fares.

While Massachusetts currently allows taxation at both the state and municipality level, legislation has been proposed to allow "Regional Ballot Initiatives," which would allow a municipality or group of municipalities to place new taxes on the ballot for the approval of voters in the area. These initiatives are specifically meant for transportation projects, and because of the regional nature of transit—exemplified by the WRTA's 37-community service area—would allow local voters to have a more direct say in the direction of transportation projects in their region.

While finding additional funding for any governmental priority is complicated and rife with logistical and political challenges, the benefits of a zero-fare system—especially in Worcester, given the local data covered in the WRRB's original report—are substantial enough to be worth the investment of time and effort it would take to make such a change happen. Smaller communities have found a variety of ways to fund a zero-fare system, and interest from community members both in and outside government is as strong in Worcester as it was in those other cities and towns.

The recommendation from "The Implications of a Fare-Free WRTA" is, if anything, more relevant today—decision makers in Worcester and the surrounding towns served by the transit authority should give serious consideration to finding funding to eliminate fare collection as a function of the WRTA, either through increased governmental aid or partnerships with the institutions that would benefit from a stronger public transit network.